

# IMPROVING YOUR PAPER P5 ANSWERS – PART 1

## RELATED LINKS

- [Improving your Paper P5 answers – part 2](#)
- [Reading the question requirements of Paper P5](#)
- [Student Accountant hub page](#)

This article aims to give a marker's perspective on the level of response that is required in a Paper P5 answer. It will address a specific past paper question that caused considerable difficulty in the **June 2014 session**. The article will present and discuss two possible poor solutions to this question. Reading through the answer and the marker's comments should help candidates to avoid basic mistakes and gain a better understanding of the breadth and depth of solution that a marker is expecting. Comments are made in [ ] after each paragraph, where appropriate.

Before reading this article, it is essential to have read the scenario and requirement for Question 1 part (i) of the June 2014 Paper P5 exam and it will be helpful to keep these to hand. The requirement is repeated here for clarity.

### Requirement:

Write a report to the CEO of Cantor to:

(i) Evaluate the current performance report in Appendix 1. (15 marks)

It is important to be clear that this question is about the report's value in of itself - not the performance it purports to portray. Focus on what features make this report (as opposed to another type of report) uniquely valuable to its readers. Its strengths (explain why they are strengths) and weaknesses (explain why they are weaknesses).

### EXAMPLE SOLUTION 1: AN ASSESSMENT OF THE PERFORMANCE OF CANTOR GROUP

This solution has not been written out in full here since it is not an answer to the question, however, an explanation of why this is the case may help to clarify your understanding of the requirement. There are also some examples of this kind of mistaken thinking in example solution 2.

what is the case?

This was a common mistake in the actual examination and so, it is worth noting some of the ways in which a candidate could have realised that 'an assessment of the performance' was not what was required.

1. An evaluation of the 'report' not the 'performance' is requested in the question.
2. The scenario contained the instruction, 'The CEO has advised you that the board does not require an evaluation of Cantor's performance.' Candidates who are in doubt about the importance of this comment need only check who the solution is being addressed to in order to appreciate its significance. In other words, students' reading ability is very weak if they cannot figure this out.
3. This type of question has appeared in past papers such as Question 1 (June 2013, Kolmog) and Question 1 (June 2012, Metis).
4. This issue of interpretation of the requirement was commented on in the examiner's report to these previous papers.
5. Finally, the issue is discussed in an article on reading the requirement at Paper P5 (see 'Related links').

Faulty parallelism: "either" does not go with "and" but with "or"

The prepared answer effect

The most plausible explanations for this error are either a lack of preparation (practising past papers, reading examiner's reports and articles) and/or entering the examination room with an expectation of the questions in the paper – i.e. that it would begin with a performance evaluation, which was then followed regardless of the question asked. It is wise to remember that proper preparation and then careful reading of the question are pre-requisites for success in the exam.

The objective of practice is to learn skills: not to anticipate the question. It can be hazardous to prepare an answer to a preferred question.

The remainder of this article will look at a detailed commentary on a weak solution in order to give advice about how it could be improved. This solution represents a single answer of roughly the length often seen in the actual examination but it is made up of common mistakes. A good way to

approach **this** solution is to read it as if you are the marker and see if you can spot the mistake. **Then** when you do see something wrong try to think about how you would rewrite that paragraph in order to improve it. The marker's comments are at the end of each paragraph.

## EXAMPLE SOLUTION 2: A WEAK ANSWER

Weak answer

Comment: the examiner identifies weaknesses and their possible causes; suggests remedies

Cantor Group operates in a highly competitive market and has reached the limit of its expansion. This will have an impact on their profit. The company needs to find new ways to expand their market in order for their profits not to decrease.

[Comment: The group has a clear expansion plan for Juicy that contradicts this first sentence. **Revenue growth** is confused with **profit growth** and does not reflect the company strategy of maximising shareholder wealth which need not be done through revenue growth.]

Poor reading skills  
Poor writing skills

[Comment: As a starting paragraph, **this is not impressive since it does not appear to address the performance report. It seems** to be a discussion of Cantor's business environment, its strategy and suggested improvements. If this was an answer to a P3 question, it may have merit but it is an answer to a Paper P5 question **and so is already straying from the point.**]

The current performance report is very informative containing a mix of financial and non-financial information.

[Comment: For a marker reading such a comment it shows that the scenario has not been read carefully. The report is exclusively financial. This mistake may arise from ignoring the requirement to address Appendix 1 and incorrectly starting to use the other appendices.]

The report compares actual results with budgeted which is a good comparison as it gives the company an indication how it has performed compared to what it has budgeted.

[Comment: This could be more effectively explained by saying; 'The report compares actual results with budgeted, which is a good comparison as it gives the company an indication how it has performed compared to its plans and will assist in controlling the organisation.' This is better as it begins to show the purpose of budget information.]

It splits its revenue income into products offered which are food and drink, which is good as the company can see where most of its income comes from and can try and focus on these areas to try to increase revenue.

[Comment: An appropriate point but fewer words are often better so an improvement would have been to say, 'It splits its revenue between food and drink, which is good as the company can then prioritise the key area for revenue growth.']

Currently, most of the revenue from the Cantor Cafes (Cafes) comes from drinks, 75% of it (46.5/62.4), which is unusual as you would expect that the majority of the income would come from food.

[Comment: This needs justification in two ways. Firstly what has this to do with the quality of the report and secondly, why expect more revenue from food? A marker would often look at this sort of comment as tangential to the question and an unjustified speculation on the scenario. **Without evidence from the scenario this is simply an irrelevant statement.**

Food income is only 25% of the income (15.9/62.4), Cantor Group needs to explain why the revenue from food in Cafes is low compared to drinks and to try to improve this. They can do customers surveys and see if their menu can be improved or alternatively expand on the drinks variety and focus only on the revenue from drinks.

[Comment: Again, this paragraph is making points that would be more relevant to a question that asked how to improve the performance of Cantor. This point could be improved by stating that the report would benefit from the inclusion of a narrative commentary which

could include an explanation of the split of food and drink revenues. However, the need for this explanation would also need to be justified, possibly by reference to the mission statement.]

The revenue from Juicy mostly comes from drinks (90% of its revenue comes from drinks (5.4/6) compared to 10% of its revenue from food (5.9/6)). This was expected as the company focus on drinks and only offers food as a compliment.

**[Comment:** This is the fourth paragraph on revenues and their split. For the candidate to have spent so long on this area they must think it vital and yet there has been no justification of this. If the mission had indicated that the company's aim was revenue growth then that would have provided such a reason, however, it does not.]

The report itself is good as it breaks down the revenue and cost by categories and it can clearly see where the revenue or cost is being spent.

**[Comment:** This comment is too vague. A reason must be given that justifies the value in this specific categorisation of revenue and costs.]

What it does not do is compare the revenue of food and drink to cost spent.

**[Comment:** This comment is vague and arguably wrong as gross margin is given. An explanation of the value of reporting on gross margin for Cantor could score.]

The revenue of drink in Cafes compared to the cost is 27% (12/46.5) which is quite high. The company should try to decrease this cost via finding cheaper alternatives such as implementing better supply chain or decrease wastage.

**[Comment:** Revenue compared to cost would normally be interpreted as revenue/cost not cost/revenue; 12/46.5 is 26% and there is inconsistent rounding in using one decimal place for revenue but not for cost. It is concerning for markers to see errors in simple number work. A vague suggestion of 'implement a better supply chain' isn't relevant but 'decrease wastage' might be helpful if it could be tied to the scenario by pointing to its importance in a trade serving fresh food.]

The cost of sales in Cafes of food compared to revenue is 4.5% (15.9/3.5) which is acceptable. This concludes that even though the revenue from drinks is high the cost of sales is also high therefore decreasing profit.

**[Comment:** Again, there are inaccuracies in simple number work (15.9/3.5 = 454%) and also, there should be a comment that a gross margin of 4.5% sounds very strange (not 'acceptable').]

The report shows the Cafes staff cost and compares with actuals vs budget. This indicates that the company budget 1.24% more than it actually spent ((16.1-15.9)/16.1)

**[Comment:** At this point about half way through, it is often a good idea for the candidate to check that they were answering the question asked. This comment clearly is not about the performance report but about the performance of Cantor. Even if it were relevant, the comment is empty as no use is made of the 1.24% variance identified. This is most likely because it is immaterial.]

In the Juicy budget, the cost for staff was less than it actually spent by 4.8% more ...

**[Comment:** This comment has been left in to show just how confused an answer can become. The way to avoid this is to think before writing. (The probable meaning is that this cost heading was 4.8% over budget.)]

... this indicates that the company needs to focus on the staff cost and try to decrease by either implementing new shift procedures or monitor its staff turnover.

**[Comment:** The need for action on Juicy's staff costs has not been properly justified. In fact, if the candidate had checked then they would have seen that Juicy's revenue was over budget by 4.9%, which may have explained much of the need for higher staff cost.]

The report should compare the staff cost per number of staff in each subsidiary then the CEO could see where the majority of cost goes.

**[Comment:** Assuming that what is intended is that a metric of average wage per staff member be included then this is answering the question but only in a vague way. This recommendation leaves unanswered questions and it could be improved by stating the reason for measuring this quantity – i.e. how it fits with the strategy of the business and whether this metric is appropriate for the group or the subsidiary boards or for all three?]

The report should also try to show the staff cost between Cafes/Juicy and head office staff as it's not fair to include the head office cost in the performance of the two subs.

**[Comment:** There needs to be a lead in to this discussion that talks about the main measures of performance of the group and the subs. For example, it could be argued that this point is incorrect since the report gives the operating profit of the subs individually and so has excluded the head office costs. This can be easily checked by seeing that the group staff cost is not simply the sum of the staff costs of the two subs.]

The operating cost shows of breakdown of fixed and variable costs. It should try to focus on variable costs as this will indicate where the company is spending most.

**[Comment:** The candidate seems to be rushing their answer now and is gaining no benefit by doing so. The operating costs do not show which are fixed and which are variable – indeed, that is the subject of a later piece of analysis in part (ii) of this question. Also, there is no justification offered as to why the variable costs are the key costs.]

Including cost such as depreciation and tax will not benefit the performance of the company and will not add any value.

**[Comment:** This type of comment needs to distinguish which company is being discussed – the group or one of the subs. As shareholder value is the key metric in the mission, tax and some measure of the use of assets seem significant in measuring performance.]

It should display the other operating cost on things such as electricity, water, wastage bills as these will add value to the report.

**[Comment:** no justification is offered for the additional cost of preparing these metrics, or consideration of the impact of further confusing a detailed financial report with more financial metrics.]

The report states the number of leavers and new joiners but does not say the cost of these. By showing a breakdown on the cost of training and employee agency costs the company could try to improve employee satisfaction and maybe decrease the numbers of employee leavers.

**[Comment:** The report is in Appendix 1 and it does not give detail about leavers and joiners. If the suggestion here is that the report should give these measures, then again, this needs to be justified. An acceptable justification would be to point to the need for new metrics if the mission statement is changed.]

The report also shows a number of ratios and profitability analysis but shows how well the company is doing but without benchmarking. We do not know if these are any good compared to competitors.

**[Comment:** This statement ignores the industry averages given. The answer needs to make specific points such as, 'It would benefit the subsidiary boards to have operating margins and other profitability ratios in their own sub-sectors in order to benchmark performance.' Candidates were expected to comment on how to use the figures given and on the possibility of internal benchmarking between the cafes and juice bars.]

The report is also very number based and contains a lot of financial information. This would not be good for non-financial user to read.

[Comment: Again, it is helpful to give examples of what is meant and maybe suggest broad improvements such as the inclusion of a narrative commentary.]

Also, it only contains one year's worth of information. It does not show the last year's results and so we do not know if the performance is getting better or worse.

Cantors' mission statement is to maximise shareholders wealth but the report does not give any indicators on how this is happening, it should show EPS ratios or information on how it is targeting to improve their wealth.

[Comment: **This is right on the mark but sadly not given the priority it deserves – i.e. it should be at the beginning of the answer.** If the answer had started with this comment, it may have prompted many more helpful comments as the detail of the report was discussed.]

The report should contain a mix of financial and non-financial information and it should compare both, such as number of returning customers or staff cost per restaurant.

[Comment: **Again, this is unjustified.** The candidate is leaving it to the marker to work out if it's a reasonable idea or not. An improvement would be for the answer to point to the mission statement and the role of customers in order to justify such a new metric.]

This would target specific areas and give a better indicator on how both companies are doing.

[Comment: **This is an unnecessary comment.**]

Summary:

The answer tries hard but consistently fails to make its points relevant and justified in assessing the performance report of Cantor Group using the information in the scenario.

**It shows how not to answer this question.** Before reading the improved solutions (the next article), it would be an excellent exercise for you to now write your own solution. This should only take about 20–25 minutes as you have done the preparation!

Written by a member of the Paper P5 examining team

STRATEGIC POSITION

STRATEGIC CHOICE

STRATEGIC IMPLEMENTATION

#### SCAFFOLDING

e.g. worksheets

Generic performance

management chart

- Vision
- Mission
- Strategy
- Structure
- Processes
- Resources e.g. staff
- Skills (competences)
- Style
- Culture e.g. reward,
- Measurement
- Planning.

Understanding presentation order and significance. When you study you must consistently identify "enabling criteria" in relation to specific objectives and

- appraise
- organise
- compare
- apply

This student has worked hard but has not studied smartly.